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Message Text

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12
ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20 STR-08

INT-08 HUD-02 FEA-02 DRC-01 /201 W
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R 062114Z SEP 74
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 5797

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E.O. 11652: N/A
TAGS: EGEN, VE
SUBJECT: PRESIDENT PEREZ'S ECONOMIC POLICY SPEECH

SUMMARY. PRESIDENT CARLOS ANDRES PEREZ SEPTEMBER 5 MADE MAJOR ECONOMIC POLICY SPEECH LASTING ALMOST TWO HOURS IN WHICH HE ACKNOWLEDGED THAT PERFORMANCE OF ECONOMY UNDER HIS ADMINISTRATION THUS FAR HAS BEEN DISAPPOINTING. MAIN PROBLEMS FACING THE ECONOMY STEM FROM DOMESTIC SHORTAGES OF RAW MATERIAL AND FOODSTUFFS AND THE NECESSITY OF COMPENSATING FOR THESE DEFICITS THROUGH IMPORTATION AT INFLATED WORLD PRICES. IN ORDER TO COMBAT DOMESTIC INFLATION AND STIMULATE PRODUCTION OF BASIC MATERIALS THE GOVERNMENT WILL MAINTAIN RIGID PRICE CONTROLS ON BASIC COMMODITIES AND STIMULATE AGRICULTURAL AND BASIC INDUSTRIAL PRODUCTION THROUGH SUBSIDIES AND OTHER FISCAL INCENTIVES. HE ADMITTED THAT FOR THE MOST PART THE MIDDLEMAN WOULD BEAR THE BRUNT OF INCREASED PRICES PAID TO PRODUCERS WHILE MAINTAININING ABSOLUTE CEILINGS ON PRICES PAID BY CONSUMERS. END SUMMARY.

1. PEREZ CITED INTER ALIA EXAMPLES FOLLOWING BASIC AGRICULTURE
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PRODUCTS NOW IN DEFICIT FOR WHICH GOVERNMENT HAS BEEN

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REQUIRED TO IMPORT AT CONSIDERABLE LOSS IN FOREIGN EXCHANGE:
SESAME SEEDS (55,000 TON DEFICIT); CORN (350 TON DEFICIT);
BLACK BEANS; SUGAR AND WHEAT(NOT GROWN IN VENEZUELA).

2. IN ORDER TO HOLD DOWN THE COST OF LIVING FOR THE LOWER INCOME GROUPS IN PARTICULAR, 70 ITEMS HAVE BEEN DESIGNATED AS BASIC NECESSITIES FOR WHICH THERE CAN BE NO INCREASE IN PRICE AT THE CONSUMER LEVEL. THESE ITEMS INCLUDE RICE, CORN MEAL, POTATOES, COFFEE, BLACK BEANS, SUGAR PLANTAINS, BANANAS, SALT, CHICKEN, CERTAIN TYPES EGGS, BREAD, PASTA, FISH, MEAT, CHEESE, BABY FOODS AND MALT. PRICES OF SERVICES, CLOTHING, HEALTH, HOUSING, EDUCATION, TRANSPORTATION, AGRICLTURAL PRODUCTION, SPORTS, MOTION PICTURES, DRY CLEANING, WILL BE REGULATED BY THE MINISTRY OF DEVELOPMENT.

3. PRESIDENT ANNOUNCED TAX INCENTIVES IN ORDER TO STIMULATE ACTIVITY IN SO-CALLED PRIORITY SECTORS. INTEREST ON LOANS, FOR AGRICULTURE, LIVESTOCK, FORESTRY AND FISHING WILL BE EXEMPT FROM TAX. TAX REDUCTIONS OF 20 PERCENT WILL BE GRANTED ON CAPITAL GAINS ON INVESTMENTS IN THESE SECTORS. TAX REDUCTIONS OF 15 PERCENT WILL BE GRANTED ON INCOME FROM INVESTMENTS IN PRIMARY INDUSTRIAL PRODUCTS, TRANSPORTATION AND ELECTRIC POWER DISTRIBUTION.

4. CONSUMER PROTECTION LAW WAS SIGNED BY THE PRESIDENT WHICH PROVIDES FOR (1) ADVERTISING STANDARDS; (2) PRODUCT GUARANTEES; AND (3) QUALITY CONTROLS WITH PENALTIES OF BS. 50,000 FOR VIOLA-TIONS.

5. PRESIDENT NOTED THAT MANUFACTURING ALREADY RESPONDING TO FISCAL INCENTIVES AS EVIDENCED BY FACT THAT ABOUT 200 NEW MANU-FACTURING PLANTS HAVE BEEN STARTED SINCE BEGINNING OF YEAR. HE NOTED THAT STATE STEEL WORKS SIDOR HAS ENTERED NEW PHASE OF EXPANSION AND HAS PLANS FOR STEEL PLANT WITH 5 MILLION TON CAPACITY.

6. NATIONALIZATION OF IRON INDUSTRY IS TO BE COMPLETED DURING THIS YEAR AND PROGRESS CONTINUES ON THE PREPARATION FOR THE NATIONALIZATION OF PETROLEUM INDUSTRY.

7. PRESIDENT ALSO ANNOUNCED CREATION OF BS 2 BILLION FUND TO
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PROMOTE CONSTRUCTION OF DWELLINGS FOR FAMILIES WITH ANNUAL INCOME UP TO BS. 3,000 AND TO PARTIALLY SUBSIDIZE PERSONS WITH SALARIES BETWEEN BS. 3,000 AND 5,000.

8. COMMENT: PRESIDENT'S SPEECH OBVOUSLY DESIGNED TO SOFTEN GRADUALLY MOUNTING CRITICISM THAT DESPITE OVERWHELMING MANDATE IN DECEMBER ELECTIONS AND EXTENSIVE RESOURCES AT GOVERNMENT'S DISPOSAL AS RESULT OF INCREASE IN OIL PRICES, ECONOMIC PERFORMANCE

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HAS NOT BEEN GOOD. PEREZ IS DEEPLY AWARE THAT HIS POLITICAL VICTORY DUE IN PART TO THE INABILITY OF PREVIOUS COPEI ADMINISTRATION TO IMPROVE LOT OF LOWER INCOME POPULATION. WHILE RECOGNIZING DESIRABILITY OF SUPPORT OF SMALL AND MEDIUM SIZE ENTREPRENEURS, PEREZ SEEMS WILLING TO SUBJECT THEM TO COST-PRICE SQUEEZE IN ORDER TO MAINTAIN LOWER PRICE LEVEL FOR BASIC CONSUMER ITEMS. IN ADDITION TO PRICE SQUEEZE BUSINESS COMMUNITY HAS BEEN CONCERNED ABOUT PLETHORA OF ECONOMIC DIRECTIVES WHICH HAVE THUS FAR CHARACTERIZED PEREZ ADMINISTRATION AND HAVE CREATED UNCERTAINTY. WHILE THUS FAR GOVERNMENT HAS INSULATED ECONOMY FROM INFLATIONARY EFFECT OF INCREASED OIL REVENUES BY RESERVING THEM FOR EXTERNAL INVESTMENT AND EXPENDITURES, DOMESTIC PRESSURE TO SATISFY THE ASPIRATIONS OF LOWER INCOME GROUPS THROUGH UNECONOMIC PUBLIC WORK PROJECTS COULD EXACERBATE THE CURRENT INFLATIONARY SITUATION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESIDENT, POLICIES, COMMODITIES, INFLATION, SPEECHES, ECONOMIC PROGRAMS, PRICE CONTROLS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 06 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA08794
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740248-0963
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740970/aaaacgwp.tel
Line Count: 131
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2002 by kelleyw0>; APPROVED <26 FEB 2003 by shawdg>
Review Markings:

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US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENT PEREZ'S ECONOMIC POLICY SPEECH SUMMARY. PRESIDENT CARLOS ANDRES PEREZ SEPTEMBER 5 MADE MAJOR
TAGS: EGEN, VE, (ANDRES PEREZ, CARLOS)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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